



Plot No. 2, Knowledge Park-III, Greater Noida (U.P.) – 201306

POST GRADUATE DIPLOMA IN MANAGEMENT (2017-19) END TERM EXAMINATION (TERM -III)

Subject Name: **Corporate Finance**

Time: **02.00 hour**

Sub. Code: **PG20**

Max Marks: **50**

Note:

1. Writing anything except Roll Number on question paper will be deemed as an act of indulging in unfair means and action shall be taken as per rules.
2. All questions are compulsory in Section A, B & C. Section A carries 2 Case Studies of 10 marks each. Section B carries 2 questions of 10 marks each and Section C carries 5 questions 2 marks each.

SECTION A

(10×02 = 20 Marks)

Q. 1: Read the Case and answer the question given below:

PQR Ltd having the required rate of return of 8%, is evaluating two mutually exclusive projects A and B for which the relevant data is as follows:

Year	Cash Flows of A (in Rs.)	Cash Flows of B (in Rs.)	Cash Flows of C (in Rs.)
0	-2500	-3000	-10000
1	2000	400	3500
2	1000	900	3500
3	500	1500	3500
4	300	2000	3500

Evaluate and rank these proposals using any NPV method of capital budgeting methods.

Q. 2: Read the Case and answer the questions given below:

XYZ Ltd. intends to pay Rs.2.5 dividend per share in 2019. Currently, XYZ Ltd. stock is trading at Rs.125 per share.

The past year data available for dividend distributed by XYZ Ltd. are as below:

Year	Dividend (in Rs)
2018	2
2017	1.75
2016	1.5
2015	1.35
2014	1.25

- a) Estimate the dividend growth rate.
- b) Find out the cost of equity based on dividend growth model.

SECTION B

(10×02 = 20 Marks)

Q. 3: A firm has sales of Rs.10,00,000, variable cost of Rs.7,00,000, fixed cost of Rs.2,00,000 and debt of Rs.5,00,000 at 10% rate of interest.

- a) Calculate the operating, financial and combined leverages?
- b) If the firm wants to double its EBIT, how much of rise in sales would be needed on a percentage basis?

Q. 4: Kamini Ltd. is planning to raise Rs.100 crores by issue of 13% debentures of face value Rs.100 each at 10% discount. Find out the cost of debenture in each of the following cases:

- a) If debentures are irredeemable.
- b) If debentures are redeemable at the end of 10th year at 15% premium. Use tax rate as 35%.

SECTION C

(05×02 = 10 Marks)

Q. 5 Attempt all questions.

- A): What is the amount to be invested today to get 10,000 after 5 years, if the bank is offering 10 percent interest?
- B): Calculate the payback period of the project which requires Rs.50,000 initial investments with expected annual earning of Rs.8000?
- C): Describe the concept of trading on equity.
- D): Illustrate the traditional theory of capital structure.
- E): What are the elements of credit policy?